

# **Baviaans Municipality**

## **Audit Report**

For the year ended 30 June 2014

# **REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE BAVIAANS LOCAL MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Baviaans Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting Officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material aspects, the financial position of the Baviaans Local Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

### **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figure**

8. As disclosed in note 32 to the financial statements, the corresponding figures have been restated as a result of errors only corrected during the year ended 30 June 2014 that existed in the financial statements at, and for the year ended, 30 June 2013.

### **Financial sustainability**

9. The financial statements of the Baviaans Local Municipality indicate that the current liabilities exceeded its current assets by R 22 million as at 30 June 2014. These conditions, along with other matters as set out in note 50, indicates that the municipality may encounter difficulty realising its assets and discharging its liabilities in the normal course of business.

### **Material losses**

10. As disclosed in 44 to the financial statements, the municipality incurred distribution losses relating electricity of R 1.1 million (11.82%).

### **Additional matter**

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited supplementary schedule**

12. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### **Predetermined objectives**

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2014:
  - Infrastructure development on pages xx to xx
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priority. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance



Information (FMPPI).

17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected development priority.

#### **Additional matter**

19. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected development priority, I draw attention to the following matter:

#### **Adjustment of material misstatements**

20. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the development priority selected. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

#### **Compliance with laws and regulations**

21. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

#### **Financial statements, performance report and annual report**

22. The financial statements submitted for auditing were not prepared in all material respects, as required by section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

#### **Expenditure management**

23. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
24. Reasonable steps were not taken to prevent unauthorised expenditure; irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Asset management**

25. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Procurement and contract management**

26. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
27. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.

### **Internal audit**

28. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:

- The internal audit did not function throughout the year and did also not conduct all audits on their approved audit plan. As a result, not all key risks pertaining to the municipality were addressed.

### **Performance Audit committee**

29. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii).

### **Budgets**

30. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

### **Internal control**

31. I considered internal control relevant to my audit of the financial statements, the performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies, the findings on the performance report and the findings on compliance with laws and regulations included in this report.

### **Leadership**

32. The weaknesses and deficiencies that have undermined the control environment of the municipality over the past number of years have not been completely addressed. Some deficiencies in expenditure management, asset management, procurement and contract management and the lack of implementation of policies and procedures were identified, as in prior years. This was due to management not implementing prior year audit recommendations timeously to facilitate changes within the municipality.

### **Financial and performance management**

33. Consultants were appointed to prepare the financial statements and the unbundling of assets as management and officials did not have the capacity necessary to fully understand the requirements of the applicable reporting framework.

34. The municipality does not have systems in place to monitor compliance with all applicable legislation. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored. There is a lack of supervision, monitoring and consequence management in respect of the reporting process.

### **Governance**

35. The internal audit did not fully function throughout the year and did not complete all assignments per their audit plan. As a result, not all key risks pertaining to the municipality were addressed.

36. The performance audit committee did not fully function throughout the year as only one performance audit report was submitted to council.

*Auditor-General*

East London

28 November 2014



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SOUTH AFRICA

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